Supreme Court, U. S.
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IN THE

Supreme Court of the United States

October Term, 1977

No. 77-107

WESTERN PHARMACAL COMPANY,
a Utah corporation,

Petitioner,

v.

AMFAC DISTRIBUTING CORPORATION,
a California corporation, dba
WESTERN DRUG SUPPLY CO.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI FROM THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

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July 14, 1977

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PETITION FOR A WRIT OF CERTIORARI FROM THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

Petitioner, WESTERN PHARMACAL CO., prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Tenth Circuit entered in the above case on March 17, 1977. Petition for Rehearing was denied on April 22, 1977.

OPINIONS BELOW

The three unreported opinions of the Court of Appeals, filed March 17, 1977, October 6, 1975 and April 22, 1974 are appended hereto, infra, at pp. A-1 through A-25. There is no opinion of the District Court below.

JURISDICTION

The judgment of the United States Court of Appeals was dated and entered March 17, 1977. Petition for Rehearing was denied on April 22, 1977. Jurisdiction of this Court is invoked under 28 USC Section 1254(1).

QUESTIONS PRESENTED FOR REVIEW

A national trademark policy needs to be established by this Court in respect to the following:

1. Whether the decision of the Court of Appeals is in conflict with and in disregard of this Court's controlling decision in *Mishawaka Rubber and Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 US 203, 86 L Ed 1381, 62 S Ct 1022, (1941), which case holds that the profits of a trademark infringer may be awarded to a trademark owner by the trial court unless the infringer proves that some or all of said profits are not attributable to the infringement.

2. Whether the decision of the Court of Appeals on March 17, 1977, reversing the District Court's award of profits, is in conflict with an earlier decision (October 6, 1975) by the same Court affirming the District Court's award of profits, and whether the reversal of March 17, 1977 may stand where (a) the decision of October 6, 1975 was law of the case and treated as such by both parties, (b) said reversal was not sought by either party, (c) no ground appeared for reversal, (d) said reversal undertakes to avoid or overturn the law of *Mishawaka*, supra, without apparent justification, and (e) said reversal appears to be a perpetuation of an open and long standing controversy and feud between the Tenth Circuit and the trial court rather than a review on the merits of the case.

3. Whether the Court of Appeals rejected the findings of fact by the District Court "out of hand" and in conflict with this Court's decision in *United States v. El Paso Natural Gas Co. et al.*, 376 US 651, 12 L Ed 2d 12, 84 S Ct 1044, (1964) which holds that Findings of Fact prepared by the prevailing party and adopted verbatim by the District Court must be reviewed on the merits.

4. Whether the decision of the Court of Appeals in this case is in conflict with its decision in *Blue Bell Co. v. Frontier Oil Refining Co.*, 213 F.2d 354 (CA 10 1954), holding that the goodwill generated by a trademark infringer inures to the benefit of the trademark owner and the infringer's profits in respect to said goodwill are attributable (within the meaning of *Mishawaka,* supra) to the infringement; and whether it is, or should be, the national policy in trademark infringement cases that goodwill generated by a trademark infringer should inure to the benefit of the trademark owner and profits made by the infringer respecting said goodwill are attributable to the infringement within the meaning of *Mishawaka,* supra.

5. Is an impecunious trademark owner [who is required by law to purge an infringement of its trademark (or thereafter be estopped from doing so)], also required to endure a perpetual, willful and deliberate infringement, endure threats by the financially strong infringer and carrying out of threats, absorb a heavy economic burden in resisting the threats and in enforcing the trademark rights, forego plans to expand its business without any entitlement to compensation for lost profits and attorneys fees proximately caused by the infringer's mentioned acts of deliberate infringement, prolonged litigation, and economic oppression.

STATUTORY PROVISIONS INVOLVED

1. 15 United States Code, Sec. 1117:

> "When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office shall have been established in any civil action arising under this Chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorneys fees to the prevailing party."

2. 28 United States Code, Section 1651:

> "Writs.
>
> (a) The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law."

3. 28 United States Code, Section 1254:

> "Section 1254 Courts of appeals; certiorari; appeal; certified questions"

> "Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods: (1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree."

4. Supreme Court Rules, Rule 19:

> 1. A review on writ of certiorari is not a matter of right, but of sound judicial discretion, and will be granted only where there are special and important reasons therefor. The following, while neither controlling nor fully measuring the court's discretion, indicate the character of reasons which will be considered: . . .
>
> (b) Where a court of appeals has rendered a decision in conflict with the decision of another court of appeals on the same matter, or has decided an important state or territorial question in a way in conflict with applicable state or territorial law; or has decided an important question of federal law which has not been, but should be, settled by this court; or has decided a federal question in a way in conflict with applicable decisions of this court; or has so far departed from the accepted and usual course of judicial proceedings, or so far sanctioned such a departure by a lower court, as to call for an exercise of this court's power of supervision."

STATEMENT OF THE CASE

Petitioner, Western Pharmacal Co., prays in its Petition to this Court for review and reversal of the mandate of the United States Circuit Court for the Tenth Circuit filed March 17, 1977. Said order reversed an award of damages and profits by the United States District Court, District of Utah.

On July 9, 1973, following trial, the United States District Court, District of Utah, held that the Respondent, AMFAC Distribution Corp., dba Western Drug Supply,

had infringed Petitioner's trademark "Western Pharmacal." Said court awarded Plaintiff $10,000.00 in damages and ordered an accounting of AMFAC's Salt Lake profits. On appeal to the U.S. Court of Appeals, Tenth Circuit, the District Court was affirmed on April 23, 1974 on the issues of liability. The award of $10,000.00 in damages was reversed, said award having been based on an admission by AMFAC (made for jurisdictional purposes) that Petitioner's damages amounted to at least $10,000.00. Further proceedings were ordered by the Tenth Circuit to determine Plaintiff's damages.

A dispute arose as to whether AMFAC was entitled to thereafter submit evidence that some of its profits (as opposed to damages) were not attributable to its infringement. The Tenth Circuit held on October 6, 1975 that AMFAC was so entitled and further held that at any hearing had on said issue that Petitioner could also submit proof of its actual damage. In respect to the question of determining the magnitude of AMFAC's profits to be awarded, the Court of Appeals held (a) Western Pharmacal at said hearing had the burden of establishing AMFAC's gross sales during the infringement period and (b) that AMFAC had the burden to show (1) all expenses properly allowable against gross sales (in order to arrive at the resulting profit) and (2) which of AMFAC's resulting Salt Lake profits were not attributable to the infringement.

A hearing was held February 19, 20, 1976 pursuant to the Tenth Circuit's order of October 6, 1975. At that hearing, Petitioner introduced evidence of both actual damage and Respondent's gross sales in Salt Lake City.

Petitioner's evidence of damage comprised (a) evidence of substantial expenditures of attorneys fees in connection with the prosecution of the infringement action and (b) the unchallenged testimony of an expert witness that Petitioner lost profits from expected business expansion made impossible by the economic burden of purging infringement by means of this litigation. Petitioner's uncontradicted evidence showed that Respondent had threatened to, had the financial capacity to, and did, make the infringement litigation prolix and as financially burdensome on Petitioner as possible. On the mentioned evidence, the District Court made appropriate findings of fact and awarded damages entirely consistent with the findings. The Court of Appeals reversed the award of damages on the ground that the award was prospective in nature and was not allowed by law. The Appeals Court cited no supporting case or statutory authority. The District Court had relied on the following Tenth Circuit cases as support for said award: *Stoody Co. v. Clady Royer, et al,* 374 F 2d 672, 677 (CA 10 1967); *Hedrick et al v. Perry,* 102 F 2d 802, 806, 807 (CA 10 1939); *Atlas Building Products Co. v. Diamond Block & Gravel Co.,* 269 F 2d 950, 958 (CA 10 1959). In *Atlas,* an award of future profits was made which profits would have resulted via business expansion but for the tort of the Defendant. This is precisely the situation here.

In response to Petitioner's evidence of gross sales, Respondent introduced evidence of the cost of goods sold. The resulting figure then constituted Defendant's Salt Lake "gross profits." Respondent failed to introduce admissible evidence of any further expense legally allowable against said gross profits. Respondent's (and Petitioner's) evidence showed that all of Respondent's sales during the infringement period were made in response to the goodwill

represented by, and generated in connection with, the infringing name "Western Drug." Because of the nature of Respondent's proof (and lack of proof) the consequent award of profits was high. Even if the award is considered a windfall it is proper under this Court's holding in *Mishawaka,* supra. The Court of Appeals, however, ignored this Court's holding in *Mishawaka.* The Court only observed that the amount of the award offended the Court's sense of fairness. The Court of Appeals thereupon reversed (a) the District Court's award of profits and (b) the Court of Appeals' affirmance on October 6, 1975 of that award. Said reversal was effected in spite of the fact that Respondent had not assigned the award of profits as error. [The Court of Appeals has held that an assignment of error is a prerequisite to obtaining an issue on appeal. *United States of America v. Dale P. EWING, d/b/a Action Publishing Company,* 445 F 2d 945, 949 (CA 10 1971).] Said reversal was effected without any examination by the Court of Appeals of and determination that the findings of fact, made in respect to the evidence, were clearly erroneous. The reversal by the Court of Appeals, in the last analysis, was simply an outright refusal to follow this Court's holding in *Mishawaka* respecting an award to be made to a trademark owner.

Petitioner's trademark "Western Pharmacal" was registered in the U.S. Patent Office prior to the infringement. Registration of the mark at one time lapsed through inadvertence but said registration was thereafter re-obtained. Neither the Respondent nor either of the Courts below have at any time claimed or asserted that the principles announced by this Court in *Mishawaka,* supra, were inapplicable in the present case because of such lapse. Additionally, it has been held that failure to promptly renew the registration has no adverse effect on the rights of the trademark owner. *Dunleavy v. Koeppel Steel Products, Inc.* (Koeppel Metal Furniture Corp., assignee, substituted) (Com. Patents, 1957) 114 USPQ 43; *Mishawaka Rubber and Woolen Mfg. Co. v. Bata Narodni Podnik* (by change of name, Svit Narodni Podnik) (C.C.P.A. 1955) 105 USPQ 432.

ARGUMENT

In 1941 this Court decided the trademark infringement case of *Mishawaka Rubber and Woolen Mfg. Co. v. S.S. Kresge Co.,* supra.

The trademark in issue in that case comprised a red circular plug embedded in the center of heels attached to shoes and boots. The trademark had been registered with the U.S. Patent Office. Plaintiff contended that Defendant infringed Plaintiff's trademark by selling heels with similar red plugs embedded in the center thereof. There was no evidence of actual confusion between the marks. But the trial court found that a "reasonable likelihood" of confusion existed. The trial court granted relief in the form of an injunction, damages and an order to Defendant to account for profits made from sales "to purchasers who were induced to buy because they believed the heels to be those of Plaintiff and which sales Plaintiff would otherwise have made."

Plaintiff appealed to the Sixth Circuit Court of Appeals contending that said criterion for determining profits was improper. The Court of Appeals affirmed and the Plaintiff then sought, and obtained, certiorari.

The case was disposed of by the Supreme Court by a divided court. The majority opinion, written by Justice Frankfurter, made no challenge to the form of relief

granted. The majority held that the question of infringement was not at issue. In respect to the burden of the parties on the issue of profits, this Court held the trademark owner had the initial burden of proving the gross sales of the infringer. The burden then shifted to the infringer to prove (a) all elements of costs claimed [in order to establish the resulting profit] and (b) what portion of the resulting profit was not attributable to the infringement by Defendant. This last question was to be decided in this case by resolving the issue as to whether Kresge's heels having a red plug were purchased by the public in response to the diffused appeal of the red plug trademark of Mishawaka or the diffused appeal of Defendant's trade name, Kresge. Furthermore, the Court held that if the infringer failed to meet its burden of proof and the resulting award amount to a windfall to the trademark owner, the infringer would not be heard to complain.

Justice Black dissented on the ground that: (1) no substantial probability existed that Defendant had taken sales away from Plaintiff, and (2) there was no direct proof that any purchaser had been misled into believing that heels of Defendant were the product of Plaintiff. Or, as the dissenting opinion noted in different language, there had been no palming off of Defendant's goods as being the goods of Plaintiff and it had not been shown that Plaintiff sustained any injury as a result of the infringement. Justice Black's dissent concluded that an injunction alone would have been a sufficient remedy. [The majority opinion had held that infringement (likelihood of confusion) having been established, the trademark owner had no burden to establish actual confusion by proving palming off or by proving loss of specific sales.]

On October 6, 1975 the Court of Appeals here instructed the parties that at the hearing to be held on the issues of the amounts of damages and profits to be awarded, the burden of proof devolving on the parties was to be that which was outlined in *Mishawaka*, supra. The award of the District Court, which was entered in complete conformity to the principles announced in *Mishawaka*, supra, as applied to the evidence, was high, but was clearly within the "windfall" provision of *Mishawaka*.

The Court of Appeals, when faced with the dollar amount of that award, announced that it was offended because the numbers were high and summarily undertook to substitute itself for the trial court. The Appeal Court did not examine the adequacy of the proofs which the same Appeals Court had earlier directed the parties to submit. Instead, it rejected the District Court's findings of fact out of hand on the ground that they had been prepared by counsel for Plaintiff and adopted by the Court without change. As a matter of fact, the District Court had held a hearing to settle the finding of fact. At that hearing, Respondent made no argument opposing any of Petitioner's proposed findings and it submitted no proposed findings of its own. Even if it be assumed that Respondent did not, by its silence, consent to Petitioner's proposed findings, or waive its right to thereafter object, the action by the Court of Appeals is clearly in conflict with this Court's holding in *United States v. El Paso Natural Gas Co.*, supra. The correct test on appeal is whether the findings are supported by the evidence. *Schilling et al. v. Schwitzer-Cummins Co.*, 142 F 2d 82 (CA DC 1977).

In respect to the award of profits, the Court of Appeals (under the authorship of Justice Hill) [Justice Tom Clark,

who wrote the opinion in the two prior appeals, was ill and unavailable for the hearing of the third appeal] applied the reasoning of Justice Black's *dissent* in *Mishawaka*. Circuit Judge Hill challenged for the first time, and without assignment of error, the initial award of profits. He concluded, like Black, that an injunction was sufficient. Thus, the Tenth Circuit (on its own Motion) during the third appeal reversed what had become the law of the case. Inconsistently, the Court of Appeals had clearly acknowledged in its opinion of October 6, 1975 the propriety of the award of profits by "emphasizing" that the burden was on Respondent "to clearly demonstrate that the profits it enjoyed during the period of infringement are not attributable to its unlawful use of [Petitioner's] name" and by then noting, in support thereof, that Respondent "was not an unwitting infringer; it deliberately used [Petitioner's] name knowing full well the consequences of its act."

The basis on which the Tenth Circuit now challenged the award of profits was that the equities more clearly appeared on this third appeal, citing specifically, first, that there was no proof of palming off, no proof of lost sales and no proof of injury to Plaintiff's reputation. It is noted that Justice Black in his *Mishawaka* dissent challenged the award of profits on the basis of two of those elements, i.e. no proof of palming off and no proof of loss of specific sales. Again, it must be kept in mind that the majority opinion in *Mishawaka* held that the *award* of profits was not in issue and the two elements relied on by Justice Black had no bearing on the infringer's burden to prove which profits were not attributable to the infringement. The same result should obtain in the case sub judice.

The third "equitable" factor cited by the Court of Appeals (injury to Petitioner's reputation) was not a factor in *Mishawaka*, either in the majority opinion or in the dissenting opinion. Had such injury been proved, it is true that it would have been one additional factor favoring Petitioner. The absence of this element in no way mitigates the equities heavily favoring Petitioner, viz, the infringement was deliberate and the infringer (a financial giant) had threatened to spend as much as $100,000.00 in litigation costs, and did, to render the infringement an economic millstone about the neck of the Petitioner (a relatively small company of limited financial means). These equitable factors are significantly stronger than those which favored the trademark owner in *Mishawaka*. Furthermore, the record on October 6, 1975 (when the Court of Appeals *affirmed* the award of profits and solemnly reminded Respondent to clearly demonstrate which profits were not attributable to the infringement) was just as devoid of proofs of palming off, loss of specific sales and injury to reputation as it was on March 17, 1977 (when the Court of Appeals pointed to these failures of proof as justification for entering its unsolicited *reversal* of the award of profits).

Finally, the Court of Appeals pointed to a fourth factor. The Court noted AMFAC's relatively constant level of sales before, during and after the infringement and concluded that AMFAC made no profits during the infringement period which were attributable to the infringement. Yet the Court of Appeals had noted through Justice Tom Clark's opinion of October 6, 1975 (page 7): "By assuming that all of Rocky Mountain's customers are not attributable to the infringement AMFAC may be supposing

too much." Rocky Mountain was AMFAC's Salt Lake predecessor.

Respondent did not rely on relatively constant sales volume to satisfy its proof of non-attribution. Instead Respondent offered testimony of several of its pharmacist customers who testified that they did business with Respondent in Salt Lake City because said customers associated the infringing name, Western Drug, with good service, variety of products, and quality products. Respondent's proof of non-attribution erroneously presumes that it is entitled to reap the benefit of goodwill established by Respondent in connection with the infringing name.

Prior to Respondent's purchase of the Salt Lake City wholesale drug outlet, that outlet had done business under the name Rocky Mountain Drug Supply. Upon purchase by Respondent, the name was immediately changed to the infringing name, Western Drug Supply. Thus, Respondent started from scratch insofar as *its* reputation in Utah was concerned. Respondent's only means of building goodwill for itself was to educate potential Utah customers that the name Western Drug Supply stood for something desirable. Respondent, by its own representation, expended upwards of $100,000.00 to educate Utah pharmacists that the new company, Western Drug Supply, stood for good service, variety of products and quality products. Through that effort, Respondent admittedly built up substantial goodwill with Utah pharmacists and that goodwill was associated solely with the infringing name "Western Drug." If Respondent had not sold a variety of products, or had not offered quality products or had not given good service, Utah pharmacists, upon learning those facts, would have certainly concluded that they had little interest in the new

company operating under the name "Western Drug Supply." [In such an event, because of the actual confusion which did exist between Petitioner's trademark and the infringing name, proof of injury to *Petitioner's* reputation could easily have been established.]

The critical question (where a new company comes to town and deliberately adopts an infringing name and, with full knowledge of the fact that such name infringes the name of a long established local business, proceeds to build up goodwill in connection with the infringing name) is whether the resulting goodwill should inure to the benefit of the infringer or to the benefit of the legitimate owner of the trademark. It seems to be elementary that it should inure to the benefit of the trademark owner.

The Court of Appeals for the Tenth Circuit so held in *Blue Bell Co. v. Frontier Refining Co.*, supra. In that case, the Defendant had licensed the trademark "Frontier" from Plaintiff for use in connection with the sale of gas and oil at Defendant's service stations. After the license terminated, Defendant continued to use the trademark. (Defendant did not do business at any time in the same trading area under its trademark "Frontier".) The goodwill which Defendant had built up for its service stations was built up by Defendant's efforts and in connection with the name "Frontier" which it was now infringing. Profits were awarded by the District Court, and affirmed by the Tenth Circuit, on *all* sales made in connection with the infringing name. The holding of *Blue Bell* is sound policy which merits adoption on a national basis to govern the business right of all as they relate to trademarks. The decision in the present case is in conflict with *Blue Bell*.

The Court of Appeals reversed the District Court's award of damages. Aside from that portion awarding attorneys fees, the award was based on unchallenged expert testimony that Petitioner lost profits from planned business expansion rendered impossible because of the economic burden placed on Petitioner to purge the infringement. Under controlling law, Petitioner was legally obligated to purge the infringement. [Respondent threatened and made good its threat to cause the infringement litigation to be as financially burdensome to Petitioner as possible.]

Reversal of lost profits was premised on two principles: (1) such profits were prospective in nature and, thus were not lawfully recoverable (no case authority was cited) and (2) such profits resulted from expenditures of operating capital for attorneys fees and said expenditures did not come within any of the recognized exceptions to the general rule that recovery for attorneys fees may not be had unless based on contractual or statutory authority. The award of attorneys fees was reversed on this same ground.

Reversal of the damage award is contrary to the Tenth Circuit case of *Atlas Building Products Co. v. Diamond Block & Gravel Co.*, supra, wherein the Court affirmed an award of future profits which would have occurred via expansion of the business but for the tort of the Defendant. In that case proof of future profits was made by testimony of an accountant as in the case sub judice, as to what those profits would have been. Said reversal is also in conflict with *Stoody Co. v. Clady Royer*, supra, p. 677, and *Hedrick, et. al. v. Perry*, supra, pp. 806, 807, which cases approved awards of prospective profits.

The reversal by the Court of Appeals of the District Court's award of damages is also in conflict with this Court's holding in *Clifford Vaughn v. N. J. Atkinson, etc. et. al.*, 369 US 527, 8 L Ed 2d 88, 82 S Ct 997, reh den 370 US 965, 8 L Ed 834, 82 S Ct 1578 (1962). See also *F. D. Rich Co., Inc. and Transamerica Insurance Co. v. United States For the Use of Industrial Lumber Co., Inc.*, 417 US 116, 40 L Ed 2d 703, 94 S Ct 2157, (1974). The *Vaughn* case approves the awarding of attorneys fees where the Respondent had willfully forced Petitioner to hire an attorney to commence litigation in order to obtain what was rightfully his.

The equities in Petitioner's case sub judice, for the awarding of attorneys fees and the damages caused as a result of litigation expenditures are stronger than those of the Petitioner in *Vaughn*, supra.

Here, Petitioner was required by law to purge the infringement of its trademark or thereafter be estopped from so doing. *Ambrosia Chocolate Co. v. Ambrosia Cake Bakery, Inc.*, 165 F 2d 693, 76 USPQ 157, 38 TMR 183 (4th C. 1947); *Adam Hat Stores, Inc. v. Lefco*, 134 F 2d 101, 56 USPQ 393, 33 TMR 189 (3d C. 1943); *Anheuser-Busch, Inc. v. DuBois Brew Co.*, 175 F 2d 370, 81 USPQ 423, (3d C. 1949); *Dwinell-Wright Co. v. White House Milk Co., Inc.*, 132 F 2d 822, 56 USPQ 120, 33 TMR 2 (2d C. 1943); *Landers, Frary & Clark v. Universal Cooler Corp.*, 85 F 2d 46, 30 USPQ 248, (2d C. 1936). Here, the infringement was willful and deliberate. Here, the infringer, an affluent major corporation, threatened to use, and did use, its economic strength to render Petitioner's duty to purge as economically burdensome as possible. Petitioner had no alternative but to purge the infringements. Under that

duty, Petitioner had no way to escape the economic burden (and its consequences) intentionally inflicted by Respondent. The loss of profits was the proximate result of that economic burden and should be sustained under the general principle of damages as applied to trademark infringement. See *Aladdin Mfg. Co. v. Mantle Lamp Co. of America,* 116 F 2d 707 (CA 7 1941); 87 Corpus Juris Secundum, Trademarks, Trade Names, etc. Sec. 216(b) p. 617, 618. These authorities approve all damages proximately resulting from the infringer's wrongful acts. It is certainly as wrongful to persist in a deliberate infringement, thereby requiring expensive litigation and to deliberately proceed to make the litigation financially burdensome to Petitioner, as it is to deliberately infringe in the first place. In such a case, the resulting damages should be compensable.

One possible explanation for the Court of Appeals unusual action in this case is that the Tenth Circuit judges have developed a certain prejudice against the Trial Judge, who, incidentally, authored the original *Blue Bell* decision which has been law in the Tenth Circuit for over twenty years. The frequency of the Tenth Circuit's reversal of the trial Judge's decisions has increased in past years to the point that it appears that, the trial judge cannot in any way please the Tenth Circuit. Coincidentally, the oral argument on the third appeal in this case was heard in Kansas City before two judges because the third, the author of the opinion, was in Denver reversing the trial Judge's eleventh hour stay of execution in the nationally publicized Gary Gilmore case. Whether or not personal animosity has developed between the Circuit and the District Judge, Petitioner cannot say. But what clearly appears to be an ongoing and intensified conflict between the two Courts

should have been placed to one side. The rights of Petitioner should be resolved on the law and the facts as to whether any abuse of discretion had occurred and/or if the trial Court was clearly erroneous in its award. It is clear from a mere reading of the opinion that this was not done.

CONCLUSION

For the reasons stated, a Writ of Certiorai should issue to review the third mandate of the Tenth Circuit.

Respectfully submitted,

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APPENDIX

APPENDIX A

Not for Routine Publication

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

TERRY E. FRANK and DENNIS W. FRANK, a co-partnership, d/b/a Western Pharmacal Co.,

Plaintiffs-Appellees,

v.

AMFAC DISTRIBUTION CORPORATION, a California corporation, d/b/a Western Drug Supply,

Defendant Appellant.

No. 76-1414

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH, CENTRAL DIVISION (D.C. No. C-350-72)

Roland N. Smoot (Robert M. Taylor, Jr., Los Angeles, California, and L. R. Gardiner, Jr., Salt Lake City, Utah, on the brief), Los Angeles, California, for Defendant-Appellant.

Lynn G. Foster (Rulon R. Price, on the brief), Salt Lake City, Utah, for Plaintiffs-Appellees.

Before HILL, McWILLIAMS and DOYLE, United States Circuit Judges.

HILL, Circuit Judge.

This is a diversity action for trademark infringement. The trial court found that use by appellant Amfac Distribution Corporation of the trade name "Western Drug Supply" infringed upon appellee Franks common law right in the trade name "Western Pharmacal Company." Upon that determination of liability, which is not here contested, the trial court ordered relief in the form of

injunction, damages, and profits. As in the two previous appeals in this case, the primary issue here is the monetary relief to be granted.

Upon the original finding of liability, the trial judge ordered injunctive relief and damages in the amount of $10,000 for Amfac's infringing use of the trade name in Utah. On appeal, we found that the amount violated our sense of fairness, and we reversed the award of damages. *Frank v. Amfac,* No. 73-1676 (Apr. 24, 1974). On remand, the trial court awarded Frank approximately $144,000, representing Amfac's profits during the period of infringement. We found our sense of fairness violated "even more egregiously" by that order and remanded for still further proceedings. *Frank v. Amfac,* Nos. 74-1596, 74-1644, and 74-1674 (Oct. 6, 1975). On remand, the theory of recovery for damages was distinguished from that for profits, and evidence of each was taken. The order from which this appeal is taken awards damages in the amount of $500,000 and profits of $2,336,047. Our sense of fairness is once again violated.

The trial court's findings of fact and conclusions of law are of limited value in that they were adopted verbatim by the court from Frank's submissions. We have previously expressed disapproval of this practice as violative of F.R. Civ. P. 52(a). *G. M. Leasing Corp. v. United States,* 514 F.2d 935 (10th Cir. 1975), *rev'd in part on other grounds,* .... U.S. .... (1977).

There are two bases for monetary recovery in the present case: actual damages and accounting for profits. The first is a legal theory; the second is an equitable theory of unjust enrichment. Upon a finding of infringement,

a trademark owner is entitled to recover damages for all provable injury to his business proximately caused by the infringement. Elements of injury may include profits on lost sales, loss from reduction in price of goods due to infringing competition, damage to the reputation of a trademark owner's goods or business, and expenses incurred in preventing purchasers from being deceived by an infringer's wrongful conduct. The trademark owner bears the burden of proving these elements of damage, and no presumption of law or fact that he would have made the sales made by the infringer operates to aid his proof. *Obear-Nester Glass Co. v. United Drug Co.,* 149 F.2d 671 (8th Cir. 1945).

Frank was awarded damages for two elements of injury: attorneys' fees and loss of profits from expected business expansion rendered unfeasible by the economic burden of resisting infringement through this litigation.

It is well established that the expenses of litigation, with the exception of ordinary court costs, are not recoverable as an element of damages absent an express statutory or contractual provision allowing them. *Carter Electric Co. v. Travelers Indemnity Co.,* 382 F.2d 567 (10th Cir. 1967); *B & R Supply Co. v. Bringhurst,* 503 P.2d 1216 (Utah 1972); *Blake v. Blake,* 412 P.2d 454 (Utah 1966). Although there are exceptions, as expressed in the case of *Alyeska Pipeline Serv. v. Wilderness Society,* 421 U.S. 240 (1975), neither the facts nor the equities of the present case necessitate a divergence from the rule. The inclusion of $55,681.11 for attorneys' fees in the award of damages was improper.

The balance of the $500,000 award of damages represents the profits Frank allegedly would have made but for the economic burden of resisting the infringement by means

of the present action. Although Frank originally alleged that the infringement resulted in confusion, injury to his reputation, dilution of his trademark, and loss of sales, proof that he was thereby damaged fell short of his allegations. He testified that he knew of no sales lost by virtue of the infringement, with the obvious exception of sales to Amfac that he had previously enjoyed. Although he did put on evidence of misdirected telephone calls as a result of the similar names used by the parties, he made no proof of economic loss as a result of the confusion. There was no evidence of either reduction in prices by Frank to meet increased competition by the infringer or injury to his business reputation. We noted the rule that expenses of litigation are not compensable damages. Frank seeks to go beyond even the prohibition of that rule, praying to recover not only his litigation expenses but also the profits he forewent due to the economic burden of maintaining this suit. He argues that he found it unfeasible to pursue both his plans for expansion and vindication of the infringement. Such a prospective loss is not compensable in an action at common law for trademark infringement.

As Frank failed to prove any element of compensable injury to his business by virtue of the infringement, the award for damages was improper. We need not discuss the question Amfac raises as to the competency of Frank's evidence of damages.

The remainder of the monetary recovery allowed was on an accounting for Amfac's profits during the period of infringement. The theory of such recovery is unjust enrichment. *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954). It is not in every case of trademark infringement that profits are awarded. Where injunctive

relief satisfies the equities of a case, an accounting will be denied. *Friedman v. Sealy, Inc.*, 274 F.2d 255 (10th Cir. 1960); *Radio Shack Corp. v. Radio Shack*, 180 F.2d 200 (7th Cir. 1950); *J. C. Penney Co. v. H. D. Lee Mercantile Co.*, 120 F.2d 949 (8th Cir. 1941). Although on the second appeal we remanded for a determination of Amfac's attributable Utah profits, we noted that an inequitable result would not be tolerated. *Frank v. Amfac*, Nos. 74-1596, 74-1644, and 74-1674 (Oct. 6, 1975). Upon further proceedings, the equities of the present case have become more manifest. Frank made no claim that Amfac palmed off any of its merchandise as that of Frank, nor was there proof of lost sales or injury to Frank's reputation. Amfac's relatively constant level of sales before, during, and after the period of infringement belies any inference of substantial gain resulting from the infringing use. The purpose of an award of profits is to prevent unjust enrichment rather than to cause it, and we do not believe that such an award is called for in the present case.

We need not consider Amfac's allegations of error regarding rulings by the trial judge on matters of discovery and admission of evidence.

The order of the trial court is reversed insofar as it awards Frank damages, profits, and interest thereon and is otherwise affirmed.

Reversed in part and affirmed in part.

APPENDIX B

Not for Routine Publication

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

TERRY E. FRANK and DENNIS W. FRANK, a co-partnership, d/b/a Western Pharmacal Co.,
Plaintiffs and Appellees,
v.
AMFAC DISTRIBUTION CORPORATION, a California corporation, d/b/a Western Drug Supply,
Defendant and Appellant.

Nos. 74-1596, 74-1644, 74-1674

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH, CENTRAL DIVISION (No. C-350-72)

Roland Smoot (Robert M. Taylor, Jr., Lyon & Lyon, Los Angeles and L. R. Gardiner, Jr., Salt Lake City, Utah, on the brief) for Defendant-Appellant.

Lynn G. Foster and Rulon R. Price, Salt Lake City, Utah, for Plaintiffs-Appellees.

Before CLARK,* Associate Justice, Retired, HILL and McWILLIAMS, Circuit Judges

*Honorable Tom C. Clark, United States Supreme Court, Retired, sitting by designation.

CLARK, Associate Justice, Retired:

This common law trademark infringement and unfair competition suit is here on a return engagement[1] for a determination of the appropriate measure of damages. The

[1]See No. 73-1676, *Frank v. Amfac Distribution Corp.*, unpublished opinion, decided April 22, 1974.

district court has previously determined that Amfac, a large concern based in California, improperly used the name "Western Drug Supply" in its Utah operations resulting in an infringement of the Frank tradename, "Western Pharmacal Company." In our previous unpublished opinion dated April 22, 1974, we affirmed the judgment as to the infringement but reversed "for further proceedings on the resulting damages."

On remand, the district court construed our action as reversing only that part of the judgment that granted Frank $10,000 in actual damages. The court assumed that we affirmed the award of "damages equal to the gross profits of Amfac from its Utah operations," none of which had been ascertained at the time of that appeal. We note the ambiguity in our opinion and regret the resulting confusion. Our reason for reversing the award of the $10,000 damages was because the award ran counter to our "sense of fairness": the award was based upon Amfac's affidavit in support of removal of the suit of the federal court and Amfac's admission of diversity of citizenship and jurisdictional amount. We concluded that "the integrity of the judicial system requires that such a windfall not be used for such a purpose."

However, the present judgment allowing recovery of "damages equal to the gross profits of Amfac from its Utah operations" violates our "sense of fairness" more egregiously than even the former one. Amfac has never been given an opportunity to show what portions of those gross profits are attributable to its infringement of the Frank tradename. As the Supreme Court has stated: "The plaintiff, of course, is not entitled to profits demonstrably not attributable to the unlawful use of his mark." *Mish-*

awaka R. & W. Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203, 206 (1942). Still, the district court in this case has allowed such a recovery. When proven through the accounting provided for in the judgment, the sum to be awarded will be on the order of $144,000. Such a result contrasts sharply with the amount prayed for by Frank in the amended complaint which was "on the order of $9,000."

Frank says that this plight of Amfac is the result of Amfac's failure to do its homework and of errors it made in its trial strategy. Frank insist that whatever evidence Amfac now wishes to introduce, showing that some of its profits were not attributable to its infringement of the Frank tradename, should have been presented at trial in any one of several appropriate methods. Frank says that such evidence could have been given during the actual trial as was done in *Blue Bell v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); Amfac could have requested at trial that the determination of attributable profits be referred to a Master under Fed. R. Civ. P. 53(b), as was done in *Cover v. Chicago Eye Shield Co.*, 136 F.2d 374 (7th Cir. 1943); finally, Amfac could have sought and, on proper evidentiary foundation, obtained an order from the district court allowing the inclusion of any evidence of attributable profits in the report of the auditor, as was done in *Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.*, 149 F.Supp. 852 (E.D.Pa. 1957), *aff'd*, 251 F.2d 924 (2d Cir. 1958). Frank insists that Amfac failed to take steps to implement any of these methods at the trial and accordingly should now be foreclosed from "reopening" its first accounting. We cannot agree with such a hard-nosed position.

1. *The Amfac Profits Due Frank:*

In our view of the record, the present confusion on whether we affirmed the award of profits in the first appeal was occasioned by the unfortunate language of both the original complaint and the July 9, 1973, judgment of the district court which was drawn by Frank. The complaint used only the term "damages." Paragraph 9 of the judgment granted Frank an award of damages using the words "damages in the amount of $10,000, the amount of said damages having been admitted by the Defendant." In the succeeding paragraph, the judgment reads: "In addition to damages awarded in paragraph 9, above, Plaintiff is awarded *damages* equal to the gross profits of the Defendant from its Utah operation . . ." (emphasis supplied).

In discussing the total recovery of Frank, both actual damages from the infringement and profits of Amfac attributable to the infringement, the judgment of the district court used the same term, "damages." We used the same terminology in our remand, thinking it would avoid confusion. On remand, however, our use of the term "damages" was construed to mean only the actual damages, the $10,000 item, and not the entire recovery in the judgment. The award that had been made to Frank of the Amfac gross profits was construed to be in a different category, under the heading of "gross profits" rather than "damages." Thus the district court determined that its earlier award of gross profits was affirmed by our finding of frivolousness as to a series of errors raised byAmfac in that earlier appeal.[2] We can understand the confusion and take full

[2]Although Amfac had provided an accounting to Frank on October 8, 1973, it did not file it with the court because the order read: "provide Plaintiff." Frank would have us put some sinister connotations on this, but we note that Frank drew the order, was thus aware of the language, and yet made no effort to file the accounting itself.

responsibility for it. We hope that our reversal and remand for further proceedings in this appeal will not suffer from similar misunderstanding. With this in mind, we instruct that on remand Frank is entitled only to those profits attributable to Amfac's infringement of the Frank tradename. We instruct that Frank, if necessary, be permitted to withdraw its "forebearance" and put on proof of its actual damages, if any.

Additional confusion exists concerning the various accountings that have and have not been filed. Paragraph 11 of the original judgment provided that: "Defendant *shall within 90 days of the order provide Plaintiff* with a full certified accounting showing gross income, expenses, amortized cost and gross profit . . ." (emphasis supplied). On October 8, 1973, Amfac gave Frank such an accounting in a statement and certification by Amfac's controller, Jeffrey I. Breslaw. That accounting listed Amfac's gross profits in Utah for the period of the infringement up to the date of July 1, 1973, but did not attempt to define the amount attributable to the infringement. Frank did not file the October 8, 1973, accounting with the district court; apparently Frank believed that Amfac had filed Breslaw's original certification because Frank was given only a copy.

After our mandate issued in the previous appeal, Frank filed a document entitled "Forebearance," by which Frank withdrew its attempt to prove actual damages. Instead, Frank sought a supplemental order to require that Amfac pay over its gross profits within ninety days. Amfac responded by seeking further proceedings on damages and by filing two affidavits by Breslaw. The affidavits corrected the earlier figures given to Frank on the gross

profits and set forth the amount of those profits that Amfac felt were attributable to its infringement of the Frank tradename — no more than approximately $11,000. In support of its claim that at least a portion of its sales in Utah during the period involved were not attributable to its infringement of Frank's tradename, Amfac cited its purchase of Rocky Mountain Wholesale Drug in Utah and claimed that the bulk of its Utah customers came from this source. Amfac further claimed that the remaining customers could be easily canvassed as to their reasons for patronizing Amfac. In conclusion, Amfac noted that Frank did not really dispute Amfac's right under the authorities to show that its sales were attributable to something other than the use of the infringing name. In its view, Frank's argument was only that Amfac had its chance but missed it.[3] Frank then moved to strike the Breslaw affidavits and expunge them from the record. Amfac then moved for further proceedings on the issue of damages and an evidentiary hearing to determine the amount of profits properly attributable to the infringement.

When the dust had settled,[4] the district court entered

[3]While it is true that the issue of gross profits was before this Court in the prior appeal by Amfac and dismissed with other frivolous points of error made by Amfac, we found the issue premature at that time. No accounting had been filed and no money judgment thereon had been entered. Frank argues that the previous appeal settled the question. Frank would explain the confusion by noting that the use of the word "damages" in paragraph 9 of the original judgment was "in the conventional sense to refer to actual loss." On the other hand, according to Frank, the word "damages" was used in paragraph 10 to loosely mean "recovery." But by the same token then, our use of the phrase, "resulting damages" would include both "actual loss" and "gross profits."

[4]It is unnecessary for us to recount the complex and drawn out proceedings and bickering that the parties engaged in between the filing of the mandate from the earlier appeal and the orders that resulted in this one. Let it suffice to note that the docket shows a flurry of activity involving no less than sixty separate entries.

Western Pharmacal complained to Western Drug without avail and filed this suit some 18 months later. During this period some five to six hundred misdirected telephone calls had been made to Western Pharmacal, with the occurrences increasing after the yellow page listing in the telephone book. Some of the calls concerned specific pharmaceutical products, while others were directed to specific employees of Western Drug. It is reasonable to assume that the latter were made for the purpose of placing an order or transacting other official company business, rather than personal matters. The former were for drug products made by other manufacturers. The calls included some placed by purchasing agents and sought products not available from Western Pharmacal, but handled by Western Drug. Many calls came for Don Kennedy, Manager of Western Drug Supply; others to Mels Dissel, an employee of Western Drug; a freight bill intended for Western Drug from Wycoff Company was directed to Western Pharmacal by mistake. While these calls came from parties apparently having considerable expertise in the drug business, they too were confused.

In addition to this proof of confusion a comparison of the words "Western Drug" and "Western Pharmacal" evokes the same response. Indeed, "pharmacal" and "drug" have the same meaning and could only be more similar when identical. *Dawn Donut Company v. William T. Day, dba Daylight Donut Flour Company,* 450 F.2d 332 (10 Cir. 1971). Also see, *Pioneer Savings and Loan Assn. v. Pioneer Finance and Thrift Company,* 18 Utah 2d 107, 417 P.2d 121 (Utah 1966); *Security Title Insurance Agency, etc. v. Security Title Insurance Company,* 15 Utah 2d 93, 387 P.2d 691 (Utah 1964); *Budget Systems, Inc. v. Budget Loan and Finance Plan,* 12 Utah 2d 18, 361 P.2d 512 (Utah 1961).

2. We conclude from a careful examination of the entire record that the name Western Pharmacal Company has acquired a secondary meaning through the efforts of its successive owners and in the State of Utah has become exclusively associated in the minds of their customers with those owners and their products. The trial court so found and we find that its conclusion is not clearly erroneous. *Budget Systems, Inc. v. Budget Loan and Finance Plan,* supra, at page 516. Our further examination of the record also reveals substantial evidence present showing that the parties are in competition with one another in the pharmaceutical business and that there is substantial public confusion in Utah over the use of their respective names. The findings by the trial court in this regard are not clearly erroneous.

3. We have difficulty with the finding of $10,000 damages. This sum is based upon a concession made by Amfac on March 23, 1973, ostensibly to protect its removal of the case; and, more important, when the cause of action was based on nationwide sales. The latter was reduced to sales in Utah at the time of the trial. It is true that Amfac should have moved to withdraw the concession at that time, Rule 36(b), Fed. Rules Civ. Proc., but to permit the judgment to be entered on this basis violates our sense of fairness. The integrity of the judicial system requires that such a windfall not be used for such a purpose.

The judgment is, therefore, affirmed as to the liability of Amfac. The judgment as to the $10,000 resulting damages is vacated and the cause is remanded for additional proceedings on this phase of the case.

It is so ordered.

a supplemental order striking the Breslaw affidavits and ordering Amfac to commence the payment of gross profits. As a result, we have in the record on appeal neither the original accounting given to Frank and never filed by either party nor the subsequent Breslaw affidavits. Upon remand, if the Breslaw affidavits, including the accounting set out therein, are probative, they may be used. However, we have serious doubts that they are conclusive of the matter. They seem to eliminate all of the profits of Rocky Mountain Drug Supply, an acquisition of Amfac upon entering business in Utah. Breslaw then comes up with a gross profit on "new" customers of only about $11,000, which Breslaw seems to concede is attributable to Amfac's infringement. But such a defense appears too theoretical. The burden is on Amfac to prove that its Utah profits during the period of the infringement are not attributable to the infringement, rather than merely alleging that they may not be so attributable. By assuming that all of Rocky Mountain's customers are not attributable to the infringement, Amfac may be supposing too much. We believe, and the holding in *Mishawaka, supra,* at 207, requires, that Amfac bear the burden of proving by positive evidence that the infringement of Frank's tradename had no cash value in sales made by Amfac during the infringement.

3. *No Proof of Actual Damages or Gross Profits Yet Introduced:*

From the chronology of the case outlined above, we note that Frank has yet to offer either proof of actual damages or proof of Amfac's gross profits in Utah during the period of the infringement. The confusion about the meaning of our previous opinion was partly responsible for this fact, but we note that the seeds of that confusion were

first planted at the close of the trial in the district court. On that date, June 30, 1973, the trial judge observed from the bench that no proof of profits had been offered. Frank, thereupon, advised the court that: "[W]e do not have to introduce evidence on the question of profits. We could ask for an accounting if you saw fit for that to be the measure of damages." The trial judge then announced: "Judgment in this case is for the plaintiffs, and I am going to order an accounting of the profits."

On remand from the first appeal in this case, Frank still refrained from offering proof of profits and filed a "forebearance" that indicated that it wished to forego proving actual damages. Thus, Frank sought a supplemental accounting for the period between the date of the original judgment and the date of our affirmance of Amfac's liability for the infringement. That accounting was granted and Amfac filed one for the period. Frank's objections are to the correcting affidavits of Breslaw which were filed with the supplemental accounting. It is Frank's view that Amfac should be foreclosed from making any showing that certain amounts of the profits were not attributable to the infringement of the tradename.[5] Amfac, it is alleged, already missed its chance.

Frank's arguments, however, fall of their own weight. While objecting to Amfac's offer of proof, Frank relies on an accounting that Frank has yet to file and upon which the district court is awaiting in order to make a final judgment.

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[5]On this appeal, Frank does not make the contention that as an ordinary matter it could recover all gross profits, recognizing that both the United States Supreme Court and the Tenth Circuit have held to the contrary, limiting recovery to those profits attributable to the infringement. See *Mishawaka R. & W. Mfg. Co. v. S. S. Kresge Co.,* 316 U.S. 203 (1941) and *Blue Bell Co. v. Frontier Refining Co.,* 213 F.2d 354 (10th Cir. 1954).

The order for that accounting, drafted by Frank itself, clearly stated that the accounting be given by Amfac to Frank, rather than to the court: "Defendant shall within 90 days of the order provide Plaintiff with a full certified accounting . . ." It, therefore, appears that Amfac was timely when it offered its supplemental accounting and the corrections raising the offset of those profits not attributable to the infringement. The refusal of the district court to permit the filing of the correcting affidavits of Breslaw was plain error and unjustly deprived Amfac of its opportunity to prove what portions of its gross profits are not attributable to the infringement.

The award of profits, the equitable remedy that Frank seeks, was intended to render deliberate trademark infringement unprofitable. However, it is not applied as a matter of course and "will be denied where an injunction satisfies the equalities of a case . . ." *Williamson-Dickie Mfg. Co. v. Davis Mfg. Co., supra,* at 927. As has been noted, the rule that profits not attributable to the infringement be denied was an important corollary to the principle of awarding profits so that the courts could avoid "a truly harsh result." *Maier Brewing Co. v. Fleischmann Distilling Corp.,* 390 F.2d 117, 123-4 (9th Cir. 1968). We will not allow the awarding of all the gross profits on such a flimsy excuse as Frank offers. We prefer to let Amfac present its defenses and, if it affirmatively demonstrates that some of its Utah profit are not attributable to its infringement, to use the same as an offset to its total gross profits. To do otherwise under the facts here would be unconscionable and result in the very type of undue enrichment which equity abhors.

However, we emphasize that the burden of proof is on Amfac to clearly demonstrate that the profits it has enjoyed

during the period of infringement are not attributable to its unlawful use of Frank's name. Furthermore, Amfac was not an unwitting infringer; it deliberately used Frank's name, knowing full well the consequences of its acts. It is, therefore, up to it to show that its profits in Utah cannot be traced to its appropriation of Frank's name. This is not to say that Frank should receive such a windfall, $144,000, an amount that on its face would be "a truly harsh result."

The record displays much irascibility present among the parties and counsel as well; tempers have flared with accusations flying back and forth. It appears that it will be difficult for Amfac to meet its burden of proof; yet the cases teach us that a really harsh result must not be permitted. Our previous reversal was predicated upon a windfall award of $10,000 actual damage awarded Frank solely on a jurisdictional concession that such amount was involved in the case. We hold that this action violated "our sense of fairness." And now on this reversal we find that to award Frank all of Amfac's Utah profits — $144,000.00, without deducting those that Amfac can prove were not attributable to its infringement would be "unconscionable and result in the very type of undue enrichment which equity abhors." And so we again caution against the entry of "a truly harsh result" of either actual damage or gross profit in Utah, attributable to Amfac's infringement. In this regard, we call the attention of the trial judge to the nominal profits made by Frank both before and during the infringement period down to August 15, 1974; the sale price the owner of the tradename received for the mark prior to the litigation; the readiness of Frank to forego any actual damages on the first remand; and the effectiveness of the injunctive relief granted in protecting the mark in the future.

4. *The Attorneys' Fees Arising Out of the Contempt Proceedings:*

The contempt proceedings arose out of the discovery by Frank of three envelopes bearing the name Western Drug Supply that were used by Amfac as return envelopes in letters to its customers. The use of these envelopes was a technical violation of the injunction then in effect against Amfac. This naturally aroused much suspicion on the part of Frank and led to a hurried and extensive investigation by its counsel. After a hearing, the court found Amfac guilty of contempt but allowed it to purge itself of the contempt by destroying all papers, etc. bearing the name of Western Drug Supply then in its possession save old business records. It appears to us that this action on the part of Amfac at a time when acrimony between the parties was at a fever heat reached the level of gross negligence, even if totally innocent. We cannot say that the award of the $3,780 to the attorney handling the contempt proceeding for Frank was an abuse of discretion. The record shows that he expended some 54 hours on the matter at $70 per hour, not including court time. We therefore affirm the award of the $3780 attorneys' fees, and it is not to be deducted from any award for damages or profits in Utah attributable to Amfac's infringement.

5. *Motions:*

The motions of Frank for damages incurred in defense of this appeal including attorneys' fees therefor (but not including the contempt proceeding), are denied. The motions to consolidate the appeals in Nos. 74-1596, 74-1644, and 74-1674 are granted; all other motions are denied.

The judgment of the district court is reversed (1) as to the actual damage in order to afford Frank an opportunity, if Frank elects, to prove the same, and (2) as to the gross profits of Amfac in Utah for the periods of the infringement down to August 15, 1974, and the case is remanded for further proceedings in accordance with this opinion, including costs of court which are to be assessed against Amfac.

It is so ordered.

APPENDIX C

Do Not Publish

UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

TERRY E. FRANK and DENNIS W. FRANK, a co-partnership, d/b/a Western Pharmacal Co.,

Plaintiffs-Appelles,

v.

AMFAC DISTRIBUTION CORPORATION, a California corporation, d/b/a Western Drug Supply,

Defendant-Appellant.

No. 73-1676

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH, CENTRAL DIVISION (D.C. No. C-350-72)

Lynn G. Foster (Rulon R. Price on the brief) for Plaintiffs-Appellees.

Robert M. Taylor, Jr., (Lyon & Lyon, James W. Geriak and L. R. Gardner, Jr., on the briefs) for Defendant-Appellant.

Before Mr. Justice CLARK*, and HILL and McWILLIAMS, Circuit Judges.

MR. JUSTICE CLARK.

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*Associate Justice Tom C. Clark, United States Supreme Court, Retired, sitting by designation.

This diversity action was originally filed on November 15 ,1972, by Terry E. and Dennis W. Frank, doing business as Western Pharmacal Company, against Amfac Distribution Corporation, a California corporation, in the District Court of Salt Lake County, Utah. The complaint alleged that Amfac, through the use of the name Western Drug

Company, was guilty of common law trademark infringement and unfair competition with the trade name Western Pharmacal Company owned and used by the Franks. Amfac removed the case from the state court to the United States District Court. On June 30, 1973, immediately before trial, Western Pharmacal Company, a corporation, was substituted for the Franks and the cause of action was limited to the State of Utah. The District Court found for Western Pharmacal, ordered an accounting and entered judgment for $10,000 damages against Amfac upon its earlier admission on March 23, 1973, that if liability actually existed against it the damages suffered would be in excess of $10,000. We affirm the judgment on liability, but reverse for further proceedings on the resulting damages.

Amfac raises ten points of error, but we find all of them to be without merit save two which we shall now consider:

1. Amfac says that the trial court had a fundamental misapprehension of the nature of, and the recognized legal requirements for, the acquistion of exclusive rights by reason of secondary meaning in a name and the standards to be applied to determine the likelihood of confusion. While the findings are not expressed in the fine distinctions and niceties of verbiage that counsel delineates, still they are distinctions without a difference which appear to be clear and understandable to us. It is well first to treat of the facts.

Back in the mid-twenties when Western Pharmacal Company began business in the manufacture of pharmaceuticals, it was a corporation of the State of Utah with headquarters in Salt Lake City. In its operations it had

certain trademarks for which it had registrations with the State of Utah. The corporation was dissolved on December 21, 1939, by order of the court (Liber E 209 page 188) and all of its property, assets, goodwill, trade names, and all patents and trademarks were assigned to Karl M. Pack (Id. at 190). Mr. Pack continued the operation under the name of Western Pharmacal Company, and on June 1, 1948, to further fortify his claim to the trade name, filed an application with the United States Patent Office for registration of the name Western Pharmacal Company as a trademark,[1] and such trademark was registered by the Commissioner of Patents on January 17, 1950, under the Trade Name Act of 1946. The registration lapsed after six years. On January 1, 1948, Mr. Pack assigned the business together with its trademarks, trade names, etc., to a partnership of the same name, Western Pharmacal Company, composed of himself and Winifred L. Rees, the latter having a 20 per cent interest therein. Mr. Pack died on June 15, 1949, and his widow, Valeria C. Pack, and Miss Rees continued to operate the business in the name of Western Pharmacal Company until June 30, 1952, when Mrs. Pack acquired Miss Rees' interest and continued to operate the business under the name Western Pharmacal Company. A record of this was placed in the office of the

[1]The pharmaceuticals named in the application included: "Granular effervescent blood salts having antacid, diuretic, and alkalinizing properties, granular effervescent salts useful as a nerve sedative, granular effervescent salts for relief of pain from simple headache, neuralgia, and common colds, granular effervescent salts for relief of minor muscular aches and pains, granular effervescent salts used as a urinary antiseptic, an analgesic and antispasmodic tablet for symptomatic relief of primary dysmenorrhea, an antiseptic and prophylactic jelly, an inhalant useful to shrink congested membranes and promote drainage of the nose and sinuses, a liquid vitamin compound of vitamin B factors, an anti-sunburn lotion, an anti-sunburn cream, a liniment for the relief of neuralgia and myalgia, in Class 18, Medicines and pharmaceutical preparations, . . ."

United States Commissioner of Patents on November 23, 1954, including a list of the "trademarks and registrations" claimed, including "No. 519,996 for Western Pharmacal Company." On October 24, 1969, Mrs. Pack, as sole owner and proprietor of Western Pharmacal Company, sold the drug manufacturing business and all of the business related thereto of Western Pharmacal Company "and all other property or assets of Western Pharmacal Company" to a limited partnership of Alf M. Engen, Evelyn P. Engen (Mrs. Pack's daughter) and J. Reed Tuft, trading as Western Pharmacal Company. The consideration was $10,000 and the transfer included "the right to use the name 'Western Pharmacal Company' and the goodwill associated therewith;" and "registered trademarks, the formulas they represent and the goodwill associated therewith;" and bound Mrs. Pack "to execute assignments of all registered trademarks presently owned or used by Western Pharmacal Company to the buyer for filing in the U. S. Patent Office and the State of Utah."[2] A record of such transfer was filed in the United States Patent Office on July 12, 1972. On March 1, 1971, the Engens and J. Reed Tuft sold Western Pharmacal Company to Terrance E. and Dennis W. Frank for $15,000.

During all this period — almost half a century — the business was continuously operated in Salt Lake City at all times under the name Western Pharmacal Company, and with that label on each of its sales: First, by Mr. Pack for over 20 years, during which period he employed "detailers,"[3]

[2]Amfac construes this instrument as not including the trade name, trademarks, etc.; our reading of it is to the contrary.

[3]One who calls on physicians for the purpose of demonstrating the usage of certain pharmaceuticals in prescribing cures; distributes literature as to the same, as well as samples of products; all in an effort to sell the same or secure future orders therefor.

ran some advertisements of Western Pharmacal products in pharmaceutical journals and solicited prospective customers. He built the business to a peak of $28,000 to $30,000 a year in gross sales. Next, by Mrs. Pack and Miss Rees until June 30, 1952, when Mrs. Pack bought out Miss Rees and thereafter continued to operate the business under the same name and with the assistance of pharmacists and her daughter, Mrs. Alf M. Engen. During this period the use of detailers, plus some advertising and soliciting, was continued much the same as was done by Mr. Pack. While the business was not as affluent as it was under Mr. Pack's guidance, it did earn Mrs. Pack a livelihood. Third, Mrs. Engen and her husband, with J. Reed Tuft, paid $10,000 for the business on October 24, 1969, and operated it until the sale to the Franks on March 1, 1971. The potential of the business is indicated by the fact that they netted a 50 per cent profit on the sale in less than 18 months, despite the fact that gross sales only averaged $4,000-$5,000 annually. During the final phase of the Western Pharmacal Company operations, under the Franks, sales quickly doubled and in a two-year period were some five times higher than during the Engen-Tuft period. Mr. Terrance E. Frank, one of the purchasers and a registered pharmacist, had been a regular customer of Western Pharmacal Company for 10 years prior to his purchase of the business with his kinsman, Dennis W. Frank. The Franks spent some $3,000 in advertising; made personal calls on physicians, and sent out three mailings to physicians and druggists; one mailing to all hospitals in the United States and to plastic surgeons; together with weekly advertising in the Tribune and Deseret News.

During the 44-year continuous use, ownership and promotion of the name Western Pharmacal Company, no other

business in Utah used the name "Western," either alone or in conjunction with other words respecting the manufacture or the wholesale distribution of pharmaceuticals, and the testimony is uncontradicted that its reputation for excellence of products in the pharmaceutical field had over all these years been excellent. Moreover, these products over all these years had borne the name of Western Pharmacal Company and had enjoyed a common identity therewith continuously, exclusively, and had enjoyed the protection of registration in both the federal and state agencies.

Despite this long and uninterrupted use of and promotion of the trademarks and name of Western Pharmacal Company, Amfac began doing business in Utah in 1971, purchased a concern known as Rocky Mountain Wholesale Drug, changed its name to Western Drug Supply, and began distributing drugs in Utah. Jack W. Rodda, President of Western Drug Supply, testified that he had been acquainted with Western Pharmacal Company "as far back as 1949-1950, in Sacramento" where Western Drug "had some of their (Western Pharmacal) products in our inventory. . . ." Mr. Rodda further testified that he made no investigation of the availability of the name "Western Drug" in Utah before appropriating it. The yellow pages of the telephone directory for Salt Lake City under the listing "Pharmaceutical Products — Wholesale and Manufacturing" included Western Drug Supply and Western Pharmacal Company, in that order, but the Branch Manager of Western Drug denied any knowledge of how "it came about." However, nothing had been done to minimize the resulting confusion which Western Pharmacal claimed.

The record shows that the confusion in the respective names began soon after Amfac's change in the name of Rocky Mountain Wholesale Drug to that of Western Drug.

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IN THE

Supreme Court of the United States

October Term, 1977
No. 77-107

WESTERN PHARMACAL COMPANY, a Utah corporation,
Petitioner,

vs.

AMFAC DISTRIBUTING CORPORATION, a California corporation, dba WESTERN DRUG SUPPLY CO.,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

This is a diversity action involving alleged common law trademark infringement and unfair competition that was tried in the United States District Court for the District of Utah before Chief Judge Willis W. Ritter. The case was before the Court of Appeals for the Tenth Circuit on three different occasions. The three unpublished opinions form the Appendix to the Petition. In the first appeal, the Court of Appeals affirmed the District Court's holding of infringement, but reversed an award of damages of $10,000 as a windfall which violated the Court's sense of fairness, and remanded the case for further proceedings on the issue of damages as to which no evidence had been introduced at the trial. Upon remand, the District

Court, without a further evidentiary hearing or accounting, awarded Petitioner the sum of $144,000 which purported to be Respondent's profits during the period of infringement. The Court of Appeals again reversed, saying that it would be "unconscionable and result in the very type of undue enrichment which equity abhors" to allow such a recovery, and again remanded the case for an evidentiary hearing, cautioning the District Court against the entry of "a truly harsh result." After denying Respondent the opportunity to take any discovery, the District Court held a hearing on February 19 and 20, 1976, after which the District Court awarded Petitioner the sum of $2,836,047, of which $500,000 was assigned as Petitioner's damages and the remainder as Respondent's "profits" (in reality, Respondent's gross income, as the Court permitted no deductions for normal business expenses). The Court of Appeals once again reversed, noting that its sense of fairness was once again violated, and holding that there was no legal foundation for an award of damages, and that the equities of the case having become more manifest, no award of profits was justified. It is this decision that the Petitioner attacks.

Statutory Provisions Involved.

Contrary to the assertion made in the Petition, Section 1117 of Title 15, United States Code, is not involved. This case is not concerned with a federally registered trademark, but rather common law trademark rights controlled by the law of the State of Utah.

ARGUMENT.

1. The Petition Presents No Question Appropriate for Review.

This case does not present any issue justifying or requiring review by this Court. It is nothing more than a garden variety commercial dispute that was resolved by the Court of Appeals to the dissatisfaction of Petitioner. No federal question of any kind is involved—the case is one involving only common law trademark and unfair competition questions limited to the State of Utah and calling into play only the laws of that state.

The briefest consideration of the questions presented for review by the Petition can leave no doubt that there are no special and important reasons for granting the writ sought. No conflict with a decision in another court of appeals or Utah court is urged, nor has any novel federal question been urged. Instead the Petition asks the Court to establish a national trademark policy in various respects, ignoring that such a national policy was long ago established by Congress in the form of the Lanham Act (15 U.S.C. 1051 et seq.), and further ignoring that this case is controlled, not by federal law, but by the laws of the State of Utah. In this regard, it is noteworthy that Petitioner cites not a single Utah statute or case to support its position that it has been wronged, or that this Court should accept the case for review.

The thrust of the particular questions presented for review is threefold: first, that the Court of Appeals failed to follow this Court's decision in *Mishawaka Rubber and Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 86 L.Ed. 1381, 625 S.Ct. 1022 (1941),

and its own decision in *Blue Bell Co. v. Frontier Oil Refining Co.*, 213 F.2d 354 (10 Cir. 1954); second, that the Court of Appeals was somehow procedurally in error in considering the evidence on profits and damages that was, and could have only been, in the record before it for the first time on the last appeal; and third, that the Court of Appeals erred in rejecting Petitioner's theory of damages. We shall briefly treat each of these contentions in order.

2. The Decision of the Court of Appeals Is Not in Conflict With Prior Decisions of This or Any Other Court.

As we have noted, the Petitioner, despite the fact that this is a diversity case in which the law of Utah controls, *Erie Railroad v. Tompkins*, 304 U.S. 64, 82 L.Ed. 1188, 58 S.Ct. 817 (1938), cites no Utah law or statute with which the decision of the Court of Appeals might be in conflict. Instead, Petitioner relies on its incorrect interpretation of this Court's decision in *Mishawaka Rubber and Woolen Mfg. Co. v. S. S. Kresge Co., supra.* This reliance is totally misplaced. *Mishawaka* involved a federally registered trademark, not common law rights; however, we do not rely on this distinction alone, critical though it is to the propriety of the Petition. Much more importantly, it is incontestably clear from the opinions of the Court of Appeals that it intended to, and did, follow the principles pronounced in *Mishawaka* and *Blue Bell Co. v. Frontier Oil Refining Co., supra.* Contrary to Petitioner's contention, these cases do not require that an infringer's profits be turned over to a trademark owner, but only that they may be if equity would thus be done. As pointed out in *Champion Spark*

Plug Co. v. Sanders, 331 U.S. 125, 91 L.Ed. 1386, 67 S.Ct. 1136 (1947), an accounting is not necessary where an injunction will satisfy the equities of the case. Even if an accounting is ordered, this is not a determination that the trademark owner is entitled to recover profits or damages—only that he be given a day in court for the purpose of establishing that he is entitled to them. *Obear-Nester Glass Co. v. United Drug Co.*, 149 F.2d 671, 673 (8 Cir. 1945). Petitioner was given its chance but, after a review of the record, the Court of Appeals found that Petitioner simply did not suffer any compensable damages, and that Respondent's infringement resulted in no substantial gain to it, i.e., none of Respondent's profits were attributable to any infringement.

3. The Court of Appeals Acted Properly in Confining the Relief Granted to That Supported by Equitable Considerations.

Stated bluntly, the Petitioner attacks the Court of Appeals for doing equity. The Petitioner seems to complain that having once ruled on infringement, the Court of Appeals was thereafter compelled to close its eyes and its mind to equitable factors that surfaced later in the proceedings. The Petitioner is oblivious to, or deliberately chooses to ignore, the plain fact that no evidence concerning damages or profits was, or could have been, presented to the Court of Appeals until the last appeal. No authority is cited for Petitioner's remarkable proposition that having once approved an accounting of profits, a Court of Appeals cannot thereafter review the results of that accounting to determine if any awardable profits have been shown by it. This

is not surprising as the law, of course, is otherwise. Even though policy considerations favor the principle that matters decided earlier become the law of the case, this rule does not apply if the evidence at a subsequent trial presents a materially different situation, *General Motors Accept. Corp. v. Mid-West Chevrolet Co.*, 74 F.2d 312, 317 (1 Cir. 1940); *Reynolds Spring Co. v. L. A. Young Industries,* 101 F.2d 257, 259 (6 Cir. 1939). In the present case, the evidence relating to damages and profits was never adduced until the hearing in February 1976, and the Court had no opportunity prior to the latest appeal to pass on them, and then obviously had not only the right, but the duty to do so.

4. The Question of Damages Presents No Issue Requiring Review.

The third aspect of the questions presented for review —that relating to Petitioner's damages as distinguished from Respondent's profits—is not presented with even the suggestion that it falls within the guidelines of Rule 19 of this Court. The issue is a simple one—is the prevailing litigant in a conventional business tort case entitled to its attorneys' fees, costs of litigation, and speculative profits it might have made had it chosen not to litigate—and, in deciding it, the Court of Appeals followed well established federal and Utah authorities, e.g., *Carter Electric Co. v. Travelers Indemnity Co.*, 382 F.2d 567 (10 Cir. 1967); *B&R Supply Co. v. Bringhurst*, 503 P.2d 1216 (Utah 1972); *Blake v. Blake*, 412 P.2d 454 (Utah 1966). On this question, there is no issue, let alone one that is appropriate for review by this Court.

Conclusion.

We respectfully submit that the Court of Appeals acted properly in all respects and that the Petition presents no question that requires review by this Court. The Petition should therefore be denied.

JAMES W. GERIAK,

Attorney for Respondent.

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WESTERN DRUG SUPPLY CO.,

Respondent.

BRIEF IN REPLY TO OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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BRIEF IN REPLY TO OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Pursuant to Rule 24, Supreme Court Rules, Petitioner, Western Pharmacal Co., replies herewith to arguments first raised in Respondent's Brief in Opposition to Petition for Writ of Certiorari.

In its statements of facts, Respondent, Amfac Distribution Corporation, makes two statements of fact which are misleading and prejudicial:

1. Respondent asserts that upon remand after the first appeal, "the District Court, without further evidentiary hearing or accounting, awarded Petitioner the sum

of $144,000.00 which purported to be Respondent's profits during the period of infringement. The Court of Appeals again reversed, saying that it would be 'unconscionable' . . . and again remanded the case for an evidentiary hearing . . ."

The correct statement of this part of the case is: On remand after the first appeal, the District Court ordered (1) the Respondent to pay to Petitioner the amount of profits shown in Respondent's initial accounting for the infringement period up to July 9, 1973 (which, incidentally, showed a profit — before income taxes — of $400,702.00) and (2) to supply a supplemental accounting for the infringement period after July 9, 1973. [The District Court's order to pay the entire profits accounted for was premised on the fact that Respondent had not adduced any evidence at the trial as to what portion of such profits were not attributable to the infringement nor had the Respondent requested a severance at the time of trial in order to present its evidence of "profits not attributable to the infringement" at a separate hearing.] The Court of Appeals by its second mandate did not reverse the "accounting," it merely afforded Respondent a separate hearing on profits including a right to submit proof as to what portion of its profits were not attributable to its infringement.

2. Respondent says next in its statement of facts, "after denying Respondent the opportunity to take any discovery the District Court held a hearing on February 19 and 20, 1976 . . ."

The fact is that Respondent had its discovery. After Respondent was denied "its discovery" (i.e. the District Court had ruled that Petitioner was not required to respond to certain Interrogatories and Requests for Admission served on Petitioner by Respondent) Respondent petitioned the Court of Appeals for a Writ of Mandamus calculated to force a response to said Interrogatories and Requests. Because it appeared to Petitioner that the Mandamus proceeding would result in further delays including loss of the February hearing date, Petitioner voluntarily *supplied* the requested discovery, the Petition for Mandamus was denied, and the hearing was held as scheduled.

1. *Does the Petition Present a Question Appropriate for Review?*

Respondent argues, for the first time in this protracted litigation, that a federal question is not involved. Respondent says the case involves "only common law trademark . . . questions . . . calling into play only the laws of [Utah]."

This position is highly inconsistent with the stance taken by Petitioner throughout this litigation and up to the filing of its Opposition Brief.

Respondent has repeatedly relied on this Court's ruling in *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 86 L. Ed. 1381, 62 S. Ct. 1022 (1941). Indeed, it was Respondent who first brought this case to the attention of Petitioner in its Motion to Amend the Judgment of the District Court. Respondent relied almost entirely on *Mishawaka* in its second appeal. In that appeal, Respondent sought and obtained a ruling by the Tenth Circuit, which ruling was based on *Mishawaka*, that Respondent would be permitted to introduce evidence as to what portion of its profits were not attributable to its infringement of Petitioner's trademark.

Petitioner's trademark was earlier federally registered and the Registration inadvertently not renewed. The Registration has been re-acquired. The effect of the lapse of the Registration on this lawsuit was not litigated below and is not at issue here.

2. *Did Petitioner Contend that Mishawaka Requires that an Infringer's Profits be Turned Over to a Trademark Owner in Every Infringement Case?*

Respondent postulated that Petitioner did so contend and then proceeded to show the contrary in order to meet Petitioner's argument that the Tenth Circuit did not follow *Mishawaka.*

This Court's opinion in *Mishawaka* specifically said that no issue was involved as to when or under what conditions an infringer's profits may be awarded to the trademark owner. It is true that the dissent in that case was preoccupied with this question. But the majority opinion presumed that the *award* of profits had been properly made and further supposed that *all* of the infringer's profits did not result from the infringement. The opinion then dealt solely with the issue as to whether the trademark owner would be required to show what portion of the infringer's profits were attributable to the infringement or whether the infringer would be required to show what portion of the infringer's profits were not attributable to the infringement. The decision, of course, adopted the second alternative.

Petitioner agrees with Respondent that *Miskawaka* does not require *an award* of profits in every case because it was not concerned with the issue. But where an award of profits has been made, where the trademark owner meets his burden to prove gross sales and where the infringer fails to meet his burden to prove business expenses so as to arrive at the net profit or where the infringer fails to meet his burden to prove what portion of its profits are not attributable to the infringement, *Mishawaka* does require that the amount proved by the trademark owner shall be awarded except as decreased by the proofs of the infringer as to business expenses and as to the portion of profits not attributable to the infringement — even if such award amounts to a windfall. And this is the *Mishawaka* rule which the Tenth Circuit first followed and later refused to follow.

3. *Was the Question of Whether Profits should be Awarded to Petitioner Reserved Until Completion of the Hearing on Profits?*

Respondent suggests, for the first time, that the question should be answered in the affirmative, citing *Obear-Nester Glass Co. v. United Drug Co.,* 149 F. 2d 671, 673 (8 Cir. 1945). However, that case supports Petitioner, not Respondent. It was there held that an opinion of the Court of Appeals in a prior (interlocutory) appeal which determined (1) that there had been an infringement of a valid trademark, (2) that the infringement was willful, and (3) that the appellant was entitled to an accounting of appellee's profits and damages was the law of the case. Then the Court said, "the effect of that (interlocutory) decision was not to determine in advance of the accounting, that appellant was entitled to recover either profits or damages *in a substantial amount.*" (Emphasis added). That is, proofs must be offered to show the *amount* of the recovery of damages and profits. Thus the only question reserved for completion of the hearing on profits and damages was the *amount* to be recovered. The Court, quoting *Mishawaka,* then proceeded to discuss

the proofs that would be involved in determining the amount of the recovery. It also discussed the burden of proof imposed by *Mishawaka*.

In the case at bar, a reading of the second mandate of the Tenth Circuit disposes of the question in the negative. It is completely clear from that opinion that an award of profits had been made by the District Court, that the award had been approved by the Tenth Circuit, and that the *only* issues remaining in the case respecting profits was to determine, as in *Obear* the amount of the profits and the portion of that amount attributable to the infringement.

The course of the hearing on profits and damages was set by the following language from the Tenth Circuit's second mandate:

1. Petitioner shall be "permitted to . . . put on proof of its actual damage."

2. On remand, Petitioner is entitled "to those profits attributable to [Respondent's] infringement of [Petitioner's] trade name."

3. "If [Respondent] affirmatively demonstrates that some of its Utah profits are not attributable to its infringement [the same may be used] as an offset to its total gross profits."

4. "We emphasize the burden of proof is on [Respondent] to clearly demonstrate that the profits it has enjoyed during the period of infringement are not attributable to the unlawful use of [Petitioner's] name."

5. The cases of *Mishawaka*, supra, and *Blue Bell Co. v. Frontier Oil Refining Co.*, 213 F.2d 354 (10th Cir. 1954) are to control Petitioner's recovery of profits in this case.

6. Those cases provide that (1) Petitioner has the burden of proving Respondent's gross sales, (2) Respondent has the burden of proving operating expenses to arrive at net profits, and (3) Respondent has the burden of proving what portion of the profits are not attributable to the infringement.

Pursuant to the second mandate:

1. Petitioner submitted proof by a qualified expert witness that its plans for expansion could not be implemented because of the economic burden placed on Petitioner to purge Respondent's infringement. The qualifications of Plaintiff's expert were not questioned and his opinions were not discredited either by cross-examination or contrary evidence. Petitioner's proof was consistent with the Tenth Circuit and U.S. Supreme Court authorities cited in the original Petition for Certiorari. Said proof consisted of (a) proof of losses sustained during the infringement period — 1971 through August 15, 1974 — of $164,510.00, (b) proof of loss of profits of $93,372.00 during the same period in consequence of Petitioner being unable (because of the financial burden imposed on Petitioner by Respondent) to implement its plans for expansion, and (c) loss of profits of $223,754.00 during the "turn around" period involved in recovering from the financial burden.

2. Petitioner met its burden to prove Respondent's gross sales — of over $18,000,000 — via a stipulation filed with the District Court.

3. Respondent met its burden to prove cost of goods sold via the same stipulation, resulting in an established gross profit of $2,267,353. In order to arrive at the net profit, Respondent next proceeded to submit proof of operating expenses.

4. Respondent attempted to prove "administrative costs" of $179,118.00 and their deductibility from the gross profits. Respondent's attempt failed because it was admitted that most of the expense was that of a non-party parent corporation and because no direct testimony or documentary evidence was offered to show that such costs were the actual expenses of Respondent.

5. Respondent attempted to prove the deductibility of "branch expenses" in the amount of $1,635,354. However, Petitioner offered no direct testimony or documentary evidence breaking such amount down into categories so that the deductibility of each category could be demonstrated. Adequate authorities were cited to show that such was required.

6. Respondent's attempt to establish its income taxes of $215,819.00 as a deductible expense was defeated on the ground that, under authorities, income taxes are not a deductible item where the infringement was deliberate, as here.

7. Respondent attempted to prove deductibility of $48,311.00 in interest expense allocated from the parent corporation. This item was disallowed because it was an expense of a corporation not a party and because no direct testimony or documentary evidence was offered to show it was an actual expense of Respondent.

8. Respondent attempted to prove the deductibility of $67,178.00 as branch interest expense. This item was disallowed because it was admitted by Respondent that the interest was paid on obligations incurred prior to the infringement.

The Tenth Circuit — (a) after devoting its second mandate to delineating the course that the hearing on the amount of profits and damages to be awarded was to follow, (b) after placing the burden on Respondent to prove offset, (c) on being faced with the almost total failure of Respondent to prove offset, and (d) on being faced with the almost total failure of Respondent to meet that burden — did not even review the strength or weaknesses of Respondent's proofs.

Instead, it arbitrarily, on its own motion, and without any new evidence on the issue reversed its position taken in the second mandate on the issue of whether profits should have been awarded in the first instance. And it rejected Petitioner's proof of damages, founded on prior holdings of the Tenth Circuit, without any attempt to distinguish the case sub judice from those holdings.

4. *Did Equitable Factors Favoring Respondent Appear for the First Time at the Hearing on Damages and Profits which Justified a Finding that Respondent's Infringement was not Sufficiently Serious to Justify the District Court's Award of Profits?*

The Tenth Circuit's third mandate said "yes," claiming that such hearing first made it manifest that Petitioner had not (1) lost any sales intended for Respondent, (2) sustained any damage to its reputation, and (3) made any claim that Respondent palmed off its goods as those of Petitioner. Petitioner has already noted that proof at

the original trial had established each of these propositions. None of them surfaced for the first time at the hearing on damages and profits. That hearing did not present "a materially different situation" on these issues — as contended by Respondent. Profits had been awarded on the basis of Respondent's willful infringement.

The Court of Appeals made this observation in its second mandate. It said, "The award of profits . . . was intended to render deliberate trademark infringement unprofitable." And, *Respondent "was not an unwitting infringer, it deliberately used* [Petitioner's] *name, knowing full well the consequences of its acts."* (Emphasis added.) One Court has said that "where the infringement was deliberate and willful . . . both the trademark owner and the buying public are slighted" unless recovery includes an award of profits. *Maier Brewing Co. v. Fleishman Distilling Corp.*, 390 F.2d 117 123-4 (9th Cir. 1968).

The District Court's award of Respondent's profits was not based on the extent of the damage to Petitioner and, according to *Maier,* supra, need not be. However, the extent of Petitioner's damage did become substantial as a result of Respondent's willful infringement and vengeful prolongation of the infringement litigation.

It is of considerable importance to note that in the three appeals — all taken by Respondent — Respondent did not once raise the question of whether the award of profits had been properly made.

The only new factors disclosed at the hearing on damages and profits were (1) the extent of damage sustained by Petitioner as a result of Respondent's willful prolongation of the infringement litigation, (2) Petitioner met its burden, by stipulation, to prove Respondent's gross sales,

(3) Respondent met its burden, by the same stipulation, to prove the cost of goods sold, (4) Respondent did not meet its burden to prove deductibility of alleged operating expenses, and (5) the proof showed that Respondent's profits during the infringement period were all attributable to use of the infringing name, "WESTERN DRUG." These factors have no bearing on the question of whether damages and profits should have been awarded in the first instance; they bear only on the *amount* of damages and profits to be recovered.

5. *Was the Cost of Prosecuting the Infringement Action a Proper Element of Damage?*

Petitioner acknowledges that attorneys fees are often awarded as an element of damage. However, Petitioner has shown that attorneys fees are justified in this case. *Clifford Vaughn v. N. J. Atkinson etc. et al,* 369 U.S. 527, 8 L. Ed. 2d 88, 82 S. Ct. 997, reh. den. 370 U.S. 965, 8 L. Ed. 834, 82 S. Ct. 1578 (1962). Respondent made no attempt to show that the case sub judice does not fall within the rule of *Vaughn.*

6. *Was the Judgment of the District Court Contrary to the Tenth Circuit's warning against "a truly harsh result?"*

Respondent argues in the affirmative.

The Tenth Circuit established the meaning of this phrase in its second mandate: "The rule that profits not attributable to the infringement be denied was an important corollary to the principle of awarding profits so that the courts could avoid 'a truly harsh result.'" Thus, if the infringer is afforded opportunity to submit proofs of what portion of its profits are not attributable to the in-

fringement, it is presumed that the infringer must make use of that opportunity and will offer such proof, thereby avoiding "a truly harsh result." As noted above, the Court said "we emphasize [relying on *Mishawaka*] that the burden of proof is on [Respondent] to clearly demonstrate that the profits it has enjoyed during the period of infringement are not attributable to the unlawful use of [Petitioner's] name." Thus the second mandate, applying *Mishawaka*, provided the infringer with the *opportunity* to avoid a "truly harsh result," but the burden was on the infringer to avoid such result. When Respondent failed in that proof, the Tenth Circuit [now absent the influence of Justice Tom Clark (who had ably written the first two opinions)] exhibited prejudice against the District Judge and equated "a truly harsh result" with the windfall contemplated (and mandated) by *Mishawaka*. To the contrary, where an infringer fails to its proof, *Mishawaka* should continue to apply.

CONCLUSION

Thus, in an effort to contend with the Trial Judge, the Tenth Circuit has undertaken to overrule the United States Supreme Court (in *Mishawaka*). Accordingly, the Petition for Writ of Certiorari should issue.

Respectfully submitted,

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